

AGENDA ITEM: CLSA Interlibrary Loan, Universal Borrowing, Equal Access Programs

ISSUE TO COME BEFORE THE BOARD AT THIS MEETING: Consider revising the prorating of reimbursement for the CLSA Interlibrary Loan and Direct Loan programs.

RECOMMENDED MOTION TO COME BEFORE THE BOARD: I moved that the Library of California Board directs its Chief Executive Officer to increase the withholding amount from 5% to 15% for all CLSA Interlibrary Loan and Direct Loan program payments for the third and fourth quarters of the 2001/02 fiscal year and that, after determining the full state cost of the program for the 2001/02 fiscal year, the Chief Executive Officer shall pay the full amount remaining due to each participating library if sufficient funds remain in the 2001/02 CLSA Interlibrary and Direct Loan program appropriation, or pro rate the final payment equitably if insufficient funds remain in the 2001/02 CLSA ILL and Direct Loan program appropriation; and that all program participants are informed of this percentage change.

BACKGROUND:

The costs for the CLSA Interlibrary Loan and Direct Loan programs are determined by the actual handling costs realized in libraries providing the service and the actual number of times the service is utilized by Californians. While the former is, to a certain extent, controllable by individual participating libraries, the statewide average cannot be easily controlled or predicted. The usage of the service can only be controlled by clearly inequitable means; that is, by denying services to individuals after a calculated maximum number of transactions have occurred.

For these reasons the CLSA Interlibrary and Direct Loan program appropriation, in a single fiscal year, is based on estimations of the increase or decrease in handling costs, and projections of the levels of use, as well as the availability of funds. The program has been extremely successful and popular but its history has been marked by relatively frequent shortfalls in the annual appropriation.

In August 2001 the Library of California Board considered alternatives for implementing the prorating requirement and decided to withhold 5% of each valid claim throughout the course of the fiscal year, paying the remainder due, or a prorated portion of the remainder due, after the close of the fiscal year. Combined first and second quarter ILLs by public libraries are up 23.6% from the same time last year (2000/01). The average percentage of the last six years shows an increase of 7.4% of the combined total of ILL transactions for the third and fourth quarters.

Pro Rata Projection: The chart below displays the cost of a non-prorated reimbursement of the

actual activity in the ILL and Direct Loan programs thus far, the amount actually paid to libraries, and the amount withheld.

Status of Payments as of 2/1/02			
	Cost of Non-prorated Reimbursements¹	Paid to Libraries²	Amount Withheld
ILL	2,562,319	2,434,203	128,116
Direct Loan	3,793,198	3,603,538	189,660
Total	6,355,517	6,037,741	317,776

¹ At rates approved by the Board and State Department of Finance.
² 5% withheld per August 2001 action of LoC Board.

Based on revised projections of transactions for the 2001/02 fiscal year and the reimbursement rates, as approved by the State Department of Finance, the non-prorated cost of the CLSA loan program is estimated to be:

ILL	\$5,339,489
Direct Loan	\$7,832,953
Total	\$13,172,442

The 2001/02 CLSA ILL and Direct Loan appropriation is \$12,145,000, which is 1,027,442 short of the current projected total cost. If the above projections are reflected in actual transactions the pro rata payment provision of the 2001/02 Budget Act will be insufficient to reimburse all participants at 95% as adopted by the Board at its August 2001 meeting. It is therefore recommended that the Board direct its Chief Executive Officer to withhold an additional 10%, for a total of 15% from each ILL and Direct Loan payment throughout the remainder of the 2001/02 fiscal year.

GENERAL OVERALL PROGRAM UPDATES:

CURRENT STATUS: CLSA reimbursed loan services continue throughout the state with 177 public libraries participating. The 2001/02 rates, as adopted by the Board and approved by the State Department of Finance are as follows:

\$ 3.87 per eligible Interlibrary Loan
 \$.73 per net imbalance Direct Loan

The Governor's proposed budget for 2002/03, as introduced in January, is identical to the current year appropriation. Staff is currently working on the CLSA ILL and Direct Loan cost surveys with the final report and recommendations on 2002/03 reimbursement rates scheduled for Board consideration at the May 2002 Board meeting in Sacramento.

The following table presents actual 1st and 2nd quarter Interlibrary Loan and Direct Loan activity and projections for the remainder of the fiscal year. A history of the program's activity from 1979 to the present is included as Exhibit A to this agenda item.

	1 st Quarter <u>Actual</u>	2 nd Quarter <u>Actual</u>	3 rd Quarter <u>Projected</u>	4 th Quarter <u>Projected</u>	2001/02 Total <u>Projected</u>
ILL Reimbursable					
Transactions – Public	322,448	316,083	338,209	355,119	1,331,859
– Non-Public	11,799	11,768	12,899	11,388	47,854
Direct Loans:					
Total	6,799,293	6,668,493	6,950,000	7,140,000	27,557,786
Direct Loans:					
Net Imbalance	2,658,031	2,538,130	2,715,800	2,818,111	10,730,072

Ninety-one nonpublic libraries reported loans to public libraries in the first and second quarters of 2001/02 for a total of 23,567 loans.

Based on current projections of transactions for the 2001/02 fiscal, the full State cost of the CLSA loan program for fiscal year 2001/02 is estimated to be as follows:

Eligible Public Library Interlibrary Loans	1,331,859 @ \$3.87 = \$5,154,294
Eligible Nonpublic Library Interlibrary Loans	47,854 @ \$3.87 = \$185,195
Net Imbalance Direct Loans	10,730,072 @ \$.73 = \$7,832,953
Estimated Total Program Cost	= \$13,172,442
2001/02 State Appropriation	= \$12,145,000
<i>ILL and Direct Loan Program Shortfall</i>	<i>= \$ 1,027,442</i>

If projected transaction levels are actually realized the 2001/02 CLSA ILL and Direct Loan program appropriation would fall short of being sufficient to pay the full reimbursable cost of the program by an estimated \$1,027,442, or about 8.5% of the estimated total program cost.

TRANSITION PROCESS: The transition process has already begun with the establishment of the Library of California interlibrary loan pilot program, which is funding nonpublic library ILL compensation. Also, the pilot program reimburses public libraries for loans to for-profit and governmental libraries; these transactions are not eligible under CLSA. Other transition benchmarks will include the establishment of a Library of California direct loan compensation program and the transfer of existing CLSA loan reimbursement funds to the Library of California budget. The Board also will adopt additional regulations, including handling cost reimbursement rates, although not necessarily before transition takes place, since basic regulations already have been established. Technically, under current Library of California regulations, elements of the CLSA loan program can transition to the Library of California as programs are established and either CLSA funds have been transferred or adequate Library of California funding has been allocated, even if additional rulemaking has not been completed (although the Board would have to adopt the CLSA reimbursement

formula as the interim Library of California formula until the results of the upcoming cost study have been incorporated into regulation).

For example, one potential scenario is that the Board could take action to authorize the transition of the nonpublic library element of the CLSA interlibrary loan program to the Library of California and establish an interlibrary loan program by changing the status of its current program from pilot to permanent. This program also would augment the current CLSA ILL program for public libraries, since it would include compensation for public library loans to for-profit and governmental libraries. The Board also could propose a date for the transition of the remainder of the CLSA interlibrary loan program – the public library element – to the Library of California program, provided CLSA interlibrary loan funds have been transferred to the Library of California program budget.

RELATED ISSUE TO COME BEFORE THE BOARD IN THE FUTURE: Updates on actual and estimated 2001/02 transaction levels and program costs.

Relevant Committee: Access Services
Staff Liaison: Sandy Habbestad